

**Submission to the NZ Productivity Commission
On the Housing Affordability Inquiry Draft Report
From Kāpiti Coast District Council
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Introduction

The Kāpiti Coast District Council (The Council) appreciates this opportunity to provide feedback on the Housing Affordability Inquiry draft report (December 2011).

The Council agrees with the Commission about the importance of housing affordability and many of the negative trends that have occurred in New Zealand in recent decades. However, the Council has a number of concerns relating to the Commission's findings and recommendations.

The Council's primary concerns are as follows:

- The Commission has put undue emphasis on those mechanisms to improve affordability relating to land supply and has failed to adequately consider other mechanisms relating to housing demand, infrastructure costs, housing covenants, taxation and finance systems, and legislative complexity. The relatively unmanaged release of more land for development is not a silver bullet to the delivery of affordable housing, and could create its own problems.
- The Commission has not adequately recognised the potential of the "compact growth" approach to provide for significant growth via intensification and infill within existing urban areas.
- The Commission's report demonstrates a lack of understanding of the relationship between good quality urban environments and economic development and growth.
- The Commission's proposal to allow merit-based challenges on individual development contributions would not increase certainty for anyone, and is unnecessary. The range of development contribution charges throughout the country reflects local issues, and community defined levels of service expectations.

This submission first outlines the need for a holistic view on the housing affordability issue, then goes into more detail on the specific factors affecting housing affordability that the Council considers the Commission has inadequately considered, before raising other concerns the Council has with the Commission's report.

The need for a holistic view

The Council is surprised that the Productivity Commission, in identifying potential solutions to housing affordability, has failed to identify instruments relating to the wider economic drivers of housing affordability and the consequences of a narrow focus on land supply. Housing affordability is dependent on more than land supply, and productivity itself is dependent on more than housing affordability. Any moves to improve affordability need to recognise all the factors affecting affordability, all potential instruments to improve it and the risks and consequences of any specific solution being considered in isolation from others.

The terms of reference specifically stated that, as well as identifying and analysing the cost and price of housing, the Commission should "identify

mechanisms to improve affordability of housing, with respect to **both demand and supply** of housing and associated infrastructure” and “**identify the significant impediments to home ownership** and assess the feasibility and implications of removing or reducing such impediments” (KCDC emphasis added).

The Council supports the terms of reference above, and the views expressed by the inquiry participants that there is a need to take a holistic approach to understanding and examining housing affordability. There are many drivers that contribute individually and jointly to affordability outcomes and as a result the economic efficiency and stability of the wider economy. Some of these drivers are included in the diagram below, and more could be added such as energy costs.



Policy options for improving affordability are likely to be found through contributions from all the drivers. Focusing on any single large solution, individual driver, or the supply or demand side of the market only, may address a short term issue but may give rise to other anomalies and is unlikely to enhance affordability in the longer term.

The Commission appears to have focused its attention primarily on urban planning. Although the report provides an overview of some of other macro drivers, and the demand side issue, it either does not suggest improvement mechanisms in those areas or largely dismisses consideration of them as either being:

- outside of the scope of the inquiry;
- too difficult to consider in isolation from the wider system;
- likely to give rise to anomalies and unintended effects; or
- having been addressed previously and by implication not being up for reconsideration in this inquiry.

By focusing on the perceived ‘low hanging fruit’ of the supply side of the equation, in isolation from a wider assessment of measures addressing all

drivers, there is a high risk that affordability issues will not be resolved, and additional problems may arise. There is also a high risk that other long term social and economic goals, including growth, a robust and vibrant labour market, sustainability, and improvement in quality of the housing stock are compromised. Given the wording of the terms of reference the Council would have expected the Productivity Commission to have considered these risks which are at the heart of New Zealand's productivity and international competitiveness.

Other factors affecting affordability

Housing demand

The demand side of the housing affordability equation must be taken into account, not just the supply side. A comprehensive review of the academic literature on the role of growth management on affordable housing in the USA found that "market demand, not land constraints, is the primary determinant of housing prices."¹ Simply put, some places have higher housing prices because more people want to live there. Some of the most affordable cities in the world are horrible places to live. These poor quality urban environments can impose infrastructure, workforce and social costs which can also undermine overall productivity. High demand for a location is generally seen as a good thing, until demand outstrips supply so much that affordability becomes a significant problem. The key is finding a balance between a healthy level of demand and a sustainable level of supply.

It is important not only to recognise and value high demand for a place, but also to understand what that demand is based on. Otherwise, a proposal like unrestrained suburban greenfield development runs the risk of 'killing the goose that laid the golden egg.' Some areas of New Zealand have high housing demand for reasons such as job availability, reasonably efficient transport and infrastructure networks, and quality of life including environmental amenity. Simply releasing more land for housing to the detriment of the natural environment and the ability of infrastructure to cope runs the risk of overshooting the mark - not just accommodating demand, but reducing demand due to negative effects on quality of life and the efficiency of infrastructure networks.

A good overseas example is Portland, Oregon, which is a high-demand location in part because of the close proximity of natural areas provided by compact growth. If it did not have a compact growth approach, the area might lose its attractiveness and competitiveness relative to other sprawling American cities.

There is danger of a downward spiral if by releasing too much land, we reduce the quality of place that makes New Zealand cities attractive and internationally competitive.

Another demand-side issue that seems inadequately considered by the Commission is the functioning of the labour market and the ability of

¹ The Link Between Growth Management And Housing Affordability: The Academic Evidence," by Arthur C. Nelson, Rolf Pendall, Casey J. Dawkins, and Gerrit J. Knaap, for the Brookings Institution Center on Urban and Metropolitan Policy, February 2002 (<http://www.brookings.edu/reports/2002/02housingaffordability.aspx>)

household incomes to match housing prices. Part of the housing affordability problem is inequality which results in a segment of the population being unable to obtain adequate housing under current market conditions. Another issue may be that New Zealanders' income overall are lower than they should be relative to housing prices, due to wider economic productivity issues.

Constraints on supply

In theory, land supply could be increased as much as necessary to meet housing demand, but in practice there are limits to supply. These include natural hazards, sensitive ecosystems and productive rural land, as well as the cost of infrastructure extension (discussed more below). Ignoring these constraints to pursue unrestrained urban growth would risk overshooting the mark and decreasing the desirability of New Zealand cities, as mentioned above. Moreover, some constraints simply cannot be ignored or overcome without great expense or risk.

There is also an issue with developers 'landbanking' by acquiring land in future growth areas and releasing it slowly to retain its value. The Commission's draft report acknowledges this issue but fails to recognise that simply increasing the supply of land further to compensate for landbanking will lead to inefficient and costly growth patterns, including 'leapfrogging' across vacant land to locations further from existing urban development.

Infrastructure costs

There is a risk that too great an emphasis on increasing land supply could have a negative effect on the affordability of infrastructure to local government and therefore to existing ratepayers. Numerous reports point out that the costs of serving low-density development at or beyond the fringes of existing urban areas are greater than the costs of a more compact development pattern. From a local government perspective, these increased costs of infrastructure provision can exceed the benefits in terms of increased property tax revenue. Responding to this by shifting more of the infrastructure development costs from ratepayers to developers can be problematic as evidenced by the Productivity Commission's criticism of the current development contributions system in New Zealand.

Living costs including commuting

The report does not recognise that inefficient urban forms, such as poor integration of housing with transport access or employment opportunities, contribute to higher living costs such as transport and utilities. This tradeoff should be considered when comparing the benefits of urban brownfield and fringe greenfield developments. This is applicable to the Kāpiti Coast within the Wellington Region, in that housing is generally more affordable in the Kāpiti Coast than Wellington City, but commuting costs are higher due to fewer local employment opportunities and the resulting need to commute out of the district for employment.

The Center for Neighbourhood Technology's Housing and Transportation Affordability Index (<http://htaindex.cnt.org/>) provides a more complete measure of affordability by considering what it calls 'location efficiency.' Application of this Index to hundreds of American cities shows that this more holistic measure of affordability does not produce the same results as simply

looking at housing costs. Many suburban areas with lower house prices have higher transport costs that more than balance the house price savings compared with locations closer to employment opportunities and public transport.

Other whole-of-life costs besides transport costs should be considered as well, such as electricity and heating costs. Energy-inefficient housing can lead to a lack of housing affordability even if the initial purchase price or rent seems affordable.

Large-lot zoning and private housing covenants

Traditional low-density zoning, requiring large minimum lot sizes, can be a barrier to housing affordability by requiring the purchase of more land than is necessary for a modest-sized house. Even with the removal or reduction of minimum lot sizes, private housing covenants that require a minimum house size are increasingly widespread and can result in a lack of housing affordability. A recent study by Selwyn District Council and Lincoln University highlights this problem.²

Legislative complexity

The Council supports Local Government New Zealand's view that legislative complexity contributes to housing affordability issues. The existing legislative framework constrains the ability for effective strategic planning through duplicative and overly litigious planning processes. There is a need to align the planning processes under the Local Government Act (LGA), the Land Transport Management Act (LTMA) and the Resource Management Act (RMA). From Kāpiti's perspective, the Wellington Regional Strategy has some excellent direction regarding urban form and transport but has struggled in its implementation due to this legislative complexity.

The time it takes to develop planning documents and the lengthy delays through planning and plan change processes make it difficult to quickly accommodate and respond to changing community preferences. Kāpiti Coast District Council has attempted to overcome this by making a high use of public plan changes in response to community visioning exercises. In some cases this process was introduced very soon after this initial exercise. But such are the processes involved that in some cases they have only recently been operative. The Community Outcomes process that began in 2003 and resulted in Local Outcome Statements as well as a Development Management Strategy in 2008. If these LGA-based documents had greater weight under the RMA there would be less need for time-consuming litigation and 'consultation burnout' in the community.

This legislative complexity and in particular the difficulty in making tradeoffs within and between the RMA and LGA appears to be acknowledged by the Commission in its finding 7.3.

Taxation system

The Commission found (F6.3) that "the full deductibility of interest expense for business borrowers...is a tax distortion that favours borrowing to invest in real

² David Hattam, Selwyn District Council, and John Raven, Lincoln University Graduate, "My House My Castle," Planning Quarterly, September 2011.

assets, including for investment in rental dwellings,” yet it chose not to make a recommendation on this point as “it is a general flaw in the income tax system that best would be addressed as such, rather than specifically in the context of housing.”

The Commission does not apply a similar approach to the prevailing urban planning system, which it critiques heavily and for which it makes several recommendations, specifically in the context of housing. Changes to the urban planning system should be analysed within the wider context of how urban development, infrastructure, economic growth, environmental protection, and social and cultural wellbeing are affected by any such changes. The Ministry for the Environment’s December 2010 discussion document “Building Competitive Cities – Reform of the Urban and Infrastructure Planning System” was an example of a more holistic approach. If the Commission feels it can make recommendations against a compact growth approach within the context of housing affordability only, it is unclear why it cannot recommend changes to the existing taxation system within that same context.

Housing finance system and price volatility

Similarly, the Commission does not appear to have assessed the range and cost of housing finance products available (whether for owner occupied or rental housing), and how these affect housing affordability. No assessment has been made of overseas finance costs and credit options to see whether there are alternatives that would provide more confidence for ownership investment and/or reduce the cyclical “boom bust” nature of the housing market.

Untapped potential: compact growth and land supply

The Commission is correct that land supply is part of the housing affordability picture. But the report seems to equate compact growth and ‘smart growth’ with restriction of land supply, so that compact growth is therefore stated to be a major culprit in decreasing housing affordability. This allows sweeping conclusions such as:

“...the proposed compact city planning approach that is based on containment and intensification undermines the aspiration of adequate affordable housing” (p. 104)

This is not a fair assessment of the compact growth approach. Compact growth is not the same as no-growth or even just containment and intensification. It allows for growth both within existing urban areas and beyond them. This is consistent with the Commission’s recommendation of a balanced approach of allowing for both intensification within existing urban boundaries and orderly expansion beyond them (Recommendation 7.4). That recommendation recognises the potential of intensification as part of residential land supply, as opposed to simply opening up more ‘greenfield’ land for development.

Many cities around the world have shown the importance of intensification in meeting housing demand. The city of Portland has increased its population

significantly at a time when many other well-known central cities in the USA experienced a population decline. Most of this growth came through infill and intensification rather than 'greenfield' development within the city limits.

New Zealand's low population density is not a valid justification for downplaying the potential of intensification. While New Zealand's overall population density is relatively low, its urban densities are also relatively low, suggesting that more efficient use of existing urban areas could be achieved prior to urbanisation of vast tracts of currently rural land. The statement on page 4 of the report's Overview section that 'the potential supply of raw land is relatively abundant' may be true, but that does not mean that the conversion of that 'raw' land from its current uses like agriculture, landscape amenity, or indigenous ecosystems comes without a cost.

While infill and intensification are important components of a compact growth approach, greenfield development is still possible with this approach. The compact growth approach simply encourages efficient use of greenfield land. In the Kāpiti Coast District, the Council has approved plan changes that will allow over 2000 households in the new greenfield area of Waikanae North, through a combination of low-impact urban development and rural eco-hamlets. The urban edge has been set at a distance from existing urban neighbourhoods that allows for greenfield expansion provided that it is done in an environmentally sustainable manner (e.g. with attention to landform).

Finding 7.2 of the report acknowledges that greenfield development provides an opportunity to achieve medium density settlement. There is a risk that, by focusing on the release of more land, the importance of efficient use of that land will be overlooked. The continual release of more land for development without regard to its efficient use would start to resemble the chronic overeater who simply loosens his belt rather than starting a diet.

The evidence cited in the report is not sufficient to establish that compact growth or 'smart growth' has had detrimental effects on housing affordability overseas. It is accepted that the Commission could not cite an exhaustive list of overseas studies, but the current citations are far from balanced. The USA research, for example, focuses on Florida only and quotes at length a study by Gilroy et al of the James Madison Institute, an organisation which states on its website that its ideas are "rooted in such timeless ideals as limited government, economic freedom, federalism, and individual liberty coupled with individual responsibility" (<http://www.jamesmadison.org/about/about.html>).

The Commission's analysis and recommendations would have been better supported by a more balanced and comprehensive review of the overseas literature on the relationship between compact growth and housing affordability. One such example is a study of the effects of growth management policies on housing affordability in Oregon and California by Nelson et al for the Brooking Institution.³

³ "The Link Between Growth Management And Housing Affordability: The Academic Evidence," by Arthur C. Nelson, Rolf Pendall, Casey J. Dawkins, and Gerrit J. Knaap, for the Brooking Institution Center on Urban and Metropolitan Policy, February 2002 (<http://www.brookings.edu/reports/2002/02housingaffordability.aspx>)

Need for more central government guidance on urban design matters

There has been a longstanding plan for central government to produce a National Policy Statement (NPS) and/or related guidance on urban design, supplementing the Urban Design Protocol. This would assist with implementation of the efficient use of existing urban land via compact growth, since one of the key barriers to intensification and infill is poor urban design. This results in greater ‘not-in-my-backyard’ (NIMBY) responses by people associating higher density with loss of amenity, privacy, etc. A NPS on urban design and support for urban design research would assist in better implementation of compact growth and therefore more efficient use of existing urban land and more affordable housing.

Community decision-making re: amount, location and pace of growth

The Commission’s view that Councils and developers should work together to “identify significant tracts of new and undeveloped land” is sensible and generally reflects current practice. The key questions are how much land should be identified, where it should be, and how quickly it should be released for growth.

The wider community needs to be involved in these discussions, so that any tradeoffs are discussed within the context of the four well-beings identified in the Local Government Act (LGA). A community might not wish to continue rapidly releasing new land for development in all locations simply to meet market demand, if it believes this has negative economic, environmental, social or cultural consequences. The report does not seem to acknowledge that a lack of ‘supply responsiveness’ may be the direct result of these community preferences; instead it suggests that local councils that do not increase supply in response to demand are somehow inefficient in implementing and enforcing regulations. This again raises the issue of the overall legislative framework – a framework which includes the LGA’s focus on community wellbeing and does not specify anywhere that Councils must release land to match housing demand.

The report’s recommendation 7.4 for territorial authorities to “take a less constrained approach to the identification, consenting, release, and development of land for housing” does not seem to acknowledge that there are a number of legitimate binding constraints on land release, such as the maintenance of ecological buffer zones, water supply, or a community’s feeling that it is nearing its carrying capacity – that is, its ability to absorb more growth without negatively impacting on one of more of the four well-beings.

Development contributions: an unpopular necessity

As explained by Local Government New Zealand (LGNZ) in its August submission to the Productivity Commission, the Development Contributions system under the LGA does not lack transparency or accountability; in fact the opposite is true. Where a local authority wishes to use development contributions they need to adopt a policy dealing with a range of matters specified in section 106 of the Act, and this policy is then publicly consulted on.

It is appropriate for the costs of infrastructure required by growth to be paid for by growth, rather than by existing ratepayers. There is judgement involved in the attribution of costs to new development and balancing this with rates funding, so it is unsurprising that there are variations across Councils. The requirement for the Development Contributions Policy to be subject to a formal consultative process under the LGA ensures that communities are able to have their say on this matter.

It is unclear how allowing merit-based challenges on individual development contributions would increase certainty. This would lead to costly and time-consuming re-litigation of the principles and procedures contained in a Council's Development Contributions Policy, which already is contestable under the LGA. In particular, examining case-by-case whether charges on particular developments are based on actual costs incurred as a result of that development would be onerous. It would challenge the averaging that is unavoidable in a Development Contributions policy; e.g. treating all houses in a certain catchment similarly regardless of actual household size, actual water use, etc. Development Contributions are not a strict user-pays system, so case-by-case challenges should not be allowed that would require Councils to show that they are collecting no more revenue than will be needed for any particular development.

The Council supports the Commission's recommendation 8.1 for the Government to develop Best Practice Guidelines to Development Contributions (DC). This would encourage more consistency across Councils, providing greater certainty for both local government and the development community.

This guide could include how to deal with the frequent remission requests that arise and which are allowed by many Councils' DC Policies including ours. Our Council struggles to find a way to be responsive to remission requests without creating new policy 'on the fly'. In theory, the eligibility for remission should be clearly spelled out in the DC Policy itself, as it is in our Council's Policy for development types such as family flats or surplus farm buildings. In practice, however, many developers or landowners believe their case is unique for reasons ranging from an intent to use less water to fewer number of bedrooms than the average house. Most DC Policies including our Council's do not provide for all the various combinations of building size, use and location, so best-practice guidance on how to deal with requests for unique consideration would be helpful. Again, the Council's decision on a remission request should remain final rather than be subject to a merits-based appeal.

The Council also supports the report's recommendation 8.2 for the Government to lead training for local councils to enhance their skills in implementing the new Best Practice Guidelines for Development Contributions.

Building and land use consents

The Council does not support allowing non-Council Building Consent Authorities (BCAs) to issue building consents and code compliance certificates, unless they have long-term insurance that will ensure they can weather any tough times and provide support to Councils and the community in dealing with any problems resulting from their decisions. The Council does agree that greater standardisation would be useful in some areas, subject to flexibility to be responsive to local needs and preferences. The Council also generally supports better use of technology to drive efficiency.

Social housing

In 2008, the Council held a series of community workshops which identified a number of housing concerns:

- availability of housing stock;
- affordability and housing choice;
- suitability of housing stock to meet diverse needs; and
- quality of housing.

Following on from this, the Council in collaboration with community identified some potential solutions to address the shortcomings of social housing in the District. The information was collated and has provided the basis of the following points.

The Council supports solutions that:

- reduce discriminatory housing impacts that disadvantage already vulnerable populations;
- address persistent gaps in homeownership for Māori;
- support community housing sector growth, especially in the current climate of flat and declining funding levels for public housing;
- promote sustainable living options, that in the long-term reduce household cost and improve living conditions; and
- reduce substandard living conditions to improve outcomes for households at risk of disadvantage.

In response to the questions in Chapter 11 (“Where Affordability Bites”) of the Commission’s report:

- the Council supports the recommendation R11.2; that the Social Housing fund be increased to better meet future provision through community housing;
- to achieve scale in the third sector, the Council supports preferential access for community housing sector to land, and government funding increases for community housing initiatives such as Abbeyfield projects;
- the Council suggests that consideration be given to incentives for land developers to have a percentage of affordable housing within new developments;
- for the private market to deliver better outcomes for tenants, the Council recommends more initiatives that promote improved living conditions for

landlords (similar to EECA retrofitting), and incentives for major employers to provide accommodation for their workers.

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